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ABBREVIATIONS

AID	Agency for International Development
CREDICOOP	The central cooperative in Paraguay assisted by AID
GAO	General Accounting Office
U.N.	United Nations

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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

AID Must Consider Social Factors In Establishing Cooperatives In Developing Countries

COMPLETED ORIGINAL

Political, economic, and cultural factors play a large role in determining whether efforts by the Agency for International Development (AID) to establish cooperatives in developing countries succeed or fail. Yet, as the GAO review of AID-sponsored cooperatives in the Philippines, Paraguay, and Liberia demonstrates, AID often fails to consider these factors in planning and evaluating their projects.

AID should set more realistic project goals and should conduct better project evaluations. In addition, AID should more carefully consider the social factors which affect a cooperative's viability.

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JULY 16, 1980

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

Cooperative development in developing countries is advocated as a way to strengthen the participation of the rural and urban poor. This report contains our observations on the Agency for International Development's cooperative development efforts in Liberia, Paraguay, and the Philippines. Many factors associated with the political, economic, and cultural environment seem to severely affect the successful mobilization of fundamental development through cooperative endeavors.

We are sending copies of this report to the Director, Office of Management and Budget; to the Administrator, Agency for International Development; and to the Director, International Development Cooperation Agency.

Comptroller General
of the United States

A

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

AID MUST CONSIDER SOCIAL FACTORS IN ESTABLISHING COOPERATIVES IN DEVELOPING COUNTRIES

D I G E S T

Cooperatives are seen as one way to improve the effectiveness of U.S. foreign assistance in developing countries by enabling the urban and rural poor to help themselves. However, efforts by the Agency for International Development (AID) to foster cooperatives have not been uniformly successful. The primary reason, GAO believes, is that AID has not adequately considered the complex political, cultural, and economic factors affecting the development of cooperatives at the basic levels.

Cooperative efforts can take many forms--including irrigation associations, credit societies, marketing organizations, and other farmer associations. The goal of these efforts is to increase income or productivity through collaboration and an equitable distribution of the resulting revenue and services output, as well as shared participation in decisionmaking. AID provided $27.4 million in fiscal year 1978 and $35.0 million in 1979 to encourage cooperatives in developing countries. (See p. 4.)

GAO's review focused on programs in

--the Philippines, where AID is assisting farmer irrigation organizations and regional marketing cooperatives (see p. 21.);

--Paraguay, where AID is sponsoring a private, central cooperative--CREDICOOP--which provides credit assistance to 29 rural cooperatives (see p. 26.); and

--Liberia, where AID has provided funding for a farmer cooperative system (see p. 33).

If AID is to achieve greater success through these and similar cooperative programs, it must give additional consideration to social factors in each country when planning and carrying out its efforts.

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ID-80-39

NEED FOR STRONG LOCAL INSTITUTIONS

Strong local institutions are important to assure that farmers participate in and benefit from AID-supported cooperatives. These fundamental organizations are important links between farmers, national and regional cooperatives, and government agencies.

Despite the importance of local involvement and strong local cooperatives, AID programs have not devoted sufficient effort to this aspect. AID technicians often do not seek information from members of local cooperatives. In addition, local cooperatives may be too large to allow individual members to participate in management decisions. (See p. 9.)

NEED FOR ADEQUATE HOST-GOVERNMENT SUPPORT

Developing-country governments also have a role to play in establishing cooperatives. However, the government role in establishing cooperatives must also include relinquishing control of cooperatives to the farmer members. In addition to an appropriate legislative framework, they may be asked to provide financial support to build warehouses and processing facilities or capital for loan funds. Governments must also provide adequate budget support for those agencies charged with organizing cooperatives or providing training. (See p. 11.)

In addition, in Liberia, Government intervention on behalf of farmers was needed to prevent domination by traditional elites, such as landowners or middlemen. (See p. 13.)

MORE REALISTIC GOALS

An AID study of farmers in Ecuador and Honduras concluded that farmer organizations tend to do better when they are organized around specific goals that can be achieved quickly, as a group effort. Such characteristics were evident in the successful irrigation cooperatives in the Philippines. In Paraguay, overly ambitious

goals of establishing new cooperatives and increasing the number of members led to loan delinquency problems and, ultimately, to aiding fewer farmers than initially planned. (See p. 14.)

IMPROVED PROGRAM EVALUATIONS

Although AID reports to the Congress that its projects will increase productivity and income of the poor, its project evaluations do not examine what actual benefits, if any, cooperatives or their members receive. AID evaluations measure success in terms of increased sales volume and membership; they do not determine how many members are active participants or if economic benefits are distributed equitably. (See p. 15.)

Because project evaluations have not adequately considered the economic benefits to the cooperatives and their members, they have not provided significant data on key issues, such as

--how cooperatives can better serve farmers;

--how a broad sharing of benefits can be achieved; or

--what other steps can be taken by the host governments, cooperatives, and AID for effective development of cooperatives.

RECOMMENDATIONS

To improve the planning, programing, implementation, and evaluation of AID cooperative development efforts, the Administrator, AID, should

--develop mechanisms to assure that farmers are benefiting from the assistance provided to regional and national organizations;

--devote more efforts to obtaining farmers' views on their problems, needs, and priorities in designing and developing cooperative systems and to promoting farmer-participation in controlling cooperative activities;

--make sure that development funds are not dissipated because recipient countries cannot or do not provide the necessary financial, personnel, or logistic support;

--set realistic goals for cooperatives, particularly regarding intended beneficiaries; and

--improve the quality of cooperative project evaluations by focusing on actual benefits to the majority of participants.

GAO recommendations on AID projects in the Philippines, Paraguay, and Liberia are in chapter 3.

AGENCY COMMENTS

AID found GAO recommendations compatible with its new policy on cooperatives and with its thinking and planning regarding future cooperative development projects.

AID basically agreed with GAO observations of the cooperative program in Liberia and the regional marketing cooperative project in the Philippines. However, AID and GAO had fundamentally different perceptions of the status and impact of the credit cooperative project in Paraguay.

GAO agrees with the Agency that CREDICOOP is providing needed services to farmers, and most CREDICOOP cooperatives are moving toward or have already achieved self-sufficiency. GAO's concern, however, is that the successes of CREDICOOP in servicing farmers continue after AID assistance ends. AID is satisfied that CREDICOOP has initiated appropriate actions. GAO does not agree that actions taken show adequate concern for continued provision of credit and services to the project target group. GAO has clarified the report to focus on this concern rather than the self-sufficiency of the total CREDICOOP system which includes a greater nonfarmer membership.

CHAPTER 1

HELPING THE POOR THROUGH COOPERATIVE DEVELOPMENT

The use of cooperatives in developing countries so that greater numbers of the poor can participate in development has long been a stated objective of foreign assistance legislation. Since 1962, the Foreign Assistance Act has contained provisions giving special attention to cooperative development, and foreign assistance funds have gone toward such development. Despite this congressional emphasis, the Agency for International Development (AID) until recently had no policy guidance for its cooperative development activities and had only limited information on the amounts being devoted to worldwide cooperative development. Because of congressional interest, AID developed such a policy and reviewed the nature and extent of its activities as of March 1980. The effectiveness of such assistance in aiding the poor, however, is not addressed.

LEGISLATIVE BACKGROUND

Section 601 of the Foreign Assistance Act of 1961 first established the U.S. policy of encouraging the development and use of cooperatives, credit unions, and savings and loan associations in developing countries in the belief that these would improve the foreign assistance program. In 1973, further support for the development of cooperatives was provided.

> "In order to strengthen the participation of the rural and urban poor in their country's development, high priority shall be given to increasing the use of funds * * * in the development and use of cooperatives in the less developed countries which will enable and encourage greater numbers of the poor to help themselves toward a better life * * *."

More recently congressional committees have urged support for those programs that involve the active participation of beneficiaries. In its report on the 1980 foreign assistance request, for example, the House Committee on Appropriations states:

> "Projects which require active participation and shared responsibility on the part of beneficiaries

elicit both their commitment to the program and consequent self-sustaining growth."

The Committee encourages support for programs which can be implemented through local institutions. Cooperatives are one such institution.

With the enactment of the Foreign Assistance Act in 1961, AID began to look to private and voluntary organizations and cooperatives in the United States to carry out the cooperative development process overseas. Further support for using these groups was provided in 1978 by adding Section 123 to the Foreign Assistance Act of 1961. This section states that the participation of the poor in development can be effectively assisted and accelerated through increased activities, planned and carried out by U.S. private and voluntary organizations and cooperatives. These organizations should expand their overseas development, and public funding should supplement their other financial resources.

POLICY DEVELOPMENT

AID's March 1979 review of its cooperative activities concluded that congressional interest in and priorities for cooperative development called for an AID policy statement. AID's Coordinator for Cooperative Development, appointed in May 1979, prepared several draft policies and has been considering specific guidance to AID missions and Washington staff on when and how cooperative assistance is best provided. The AID Administrator approved a policy establishing AID relations with U.S. cooperatives in March of this year, but specific guidance to AID staff has not yet been developed.

AID's general policy is

"* * * to further the development and use of developing country cooperatives which will enable greater numbers of the poor to help themselves to better lives. U.S. cooperative organizations can play a significant role in furthering this objective."

In assisting the development of cooperatives, AID will "consider cooperative development an integral concern of its bilateral programs and provide support in that context," and,

"it will encourage U.S. cooperatives to relate directly to developing country cooperative counterparts as private organization-to-private

organization and will support this effort beyond the framework of the usual government-to-government bilateral programs * * *. The success of the independent cooperative-to-cooperative aspects of this policy depends on an expanded commitment of resources by U.S. cooperators on a matching grant basis, the details to be agreed with the cooperatives."

COOPERATIVE-ASSISTANCE ACTIVITIES

As of March 30, 1980, AID had developed information about the overall quantity of its support for cooperative development for fiscal years 1978 through 1981. What was found lacking, however, was a systematic examination of the effectiveness of ongoing and past cooperative development efforts although such information is essential for it to adequately address such questions as the following.

--To what degree does the Agency support cooperative development, and what priority, in relation to other programing, is attached to such support?

--Where, and under what conditions, has cooperative development been successful?

--How can cooperative-development efforts be structured to maximize success?

--How can cooperative development be monitored and evaluated to best contribute to success?

A March 1979 study of the Agency's cooperative activities done for the AID Development Support Bureau showed no "institutionalized AID memory or judgment regarding these groups and their effectiveness, or about the viability of cooperatives as a development tool." To make AID's work with cooperatives more effective, it was recommended that

--AID establish a systematic plan for evaluating the effectiveness of the cooperative-development organizations and

--AID perform a country-by-country review of its programing strategies to examine the relevancy of cooperative development to these strategies.

As of April 15, 1980, AID had not yet indicated what it proposed to do with these recommendations.

Following a May 1979 request of the Senate Foreign Relations Committee, AID prepared a March, 1980 report quantifying its cooperative development activities for fiscal years 1978 through 1981. The House Committee on Appropriations in June 1979 also requested that AID report on its support for credit union development. Both committees were concerned about the low level of AID support, and the Foreign Relations Committee expressed a desire that AID provide assistance to cooperative development at a level of 2-3 percent of the development assistance budget.

The AID data below shows that it is providing assistance at that level, but the figures must be regarded as estimates because they are based on a review of project papers, budgets and data sheets, and estimated percentages of project costs. Because AID project information and accounting systems do not routinely provide this data, we could not verify it.

Fiscal year	Cooperative assistance a/ --(millions)--	Percent of development assistance
1978	$27.4	2.6
1979	35.0	2.9
1980 (estimate)	30.0	2.4
1981 (proposed)	42.4	2.8

a/Includes Economic Support Funds.

U.S. cooperative organizations have been used primarily in providing technical assistance to AID cooperative development projects, but as shown on the next page (data from the March 1980 AID report), many other organizations have also been used.

Organization	Number of projects a/
U.S. cooperative organizations	68
U.S. private/voluntary organizations	23
U.S. universities	16
U.S. consulting firms	21
Personal service contracts	12
U.S. Department of Agriculture	7
Peace Corps	15
Developing country organizations	55
To be determined (fiscal years 1980 and 1981) b/	40

a/Some projects involve more than one type of organization.
b/Projects not yet started and implementing agency not yet selected.

AID funding by each of these type of organizations is not available, but information does indicate that six U.S. cooperative organizations received about $29 million during calendar years 1970-1978. AID also provides about $2.7 million each year to support this group on a continuous basis and, in addition, has provided about $3.7 million in grants in the past to enable project planning, and development, implementation, and evaluation. AID also assists international cooperative organizations.

SCOPE OF REVIEW

Our objectives were to determine the nature and extent of AID efforts, to (1) develop and use agricultural cooperatives as an instrument for assisting the poor; (2) identify the benefits of and constraints to cooperative development; and (3) determine the potential for improvements in AID program management. Our review was also aimed at improving the program's effect in developing countries and at improving information which the Congress can use in deciding which development assistance efforts the United States should support in future.

From May to September 1979, we reviewed AID records and held discussions with AID officials. We also met with officials from the Peace Corps, Inter-American Foundation, selected private voluntary organizations, multilateral development banks, the U.N. Development Program, and the U.N. Food and Agriculture Organization.

During October and November 1979, we reviewed selected AID-assisted cooperative development efforts in Liberia, whose Government was overthrown in April 1980; Paraguay; and the Philippines. These projects and countries were selected because they represented the diverse conditions under which AID operates and the types of assistance AID provides.

CHAPTER 2

PROMOTING EFFECTIVE COOPERATIVE DEVELOPMENT

AID has had mixed success in helping the poor in developing countries through its assistance to cooperative development. Although some success was achieved in the Philippines, Paraguay, and Liberia, the record of AID cooperative development assistance activities, as now carried out in these countries, has not established cooperative development as a consistent and successful method for helping the poor. AID does not adequately address the complex political, cultural, and economic environment affecting development at the fundamental level.

Several factors appear critical to the effectiveness of cooperatives in providing assistance to farmers. These factors--including viability of local institutions, extent of government support, purpose of the cooperative, membership training, cultural traditions, and economic environment--are disclosed in various studies of cooperatives. These factors are evident to some extent in the AID-assisted agricultural cooperatives we reviewed in the Philippines, Paraguay, and Liberia.

If AID cooperative development efforts are to be more successful, greater consideration and weight need to be directed to these factors in planning and carrying out future efforts. The potential effect which certain factors can have on successful cooperative development have been considered through AID studies and experience; however, the programs that we reviewed do not indicate that enough consideration has been given to these matters.

In the case of the Liberian cooperative system, most farmers do not benefit from the system, and AID's assistance is achieving little progress in overcoming critical obstacles. Assistance to cooperatives in Paraguay has been successful in serving farmers but to less numbers than expected and continued services to them after the termination of AID support is not yet assured. Although assistance to irrigation cooperatives in the Philippines has provided tangible benefits to these farmers, the benefits of assistance to the Philippines marketing cooperatives will take time to reach the target groups on a large scale, and minimal assistance is focused at village institutions which are crucial links in the system.

Appropriate host-government support is a critical factor. In addition to an appropriate legislative framework, financial support to build warehouses or processing facilities or to start a loan fund may also be needed while adequate budget support for those agencies charged with organizing cooperatives or training cooperative members is required. In some instances, such as in Liberia, government intervention on behalf of farmers is necessary to prevent domination of the system by traditional elites, such as landowners or middlemen. The government's role, however, must also include relinquishing control of the systems to the farmer members so that the cooperatives serve farmers.

The task around which the cooperatives are organized also affects success. An AID study of farmer organizations in Ecuador and Honduras concluded that farmer organizations tend to do better when they are organized around specific goals that can be achieved quickly, as a group effort. Such characteristics were evident in successful irrigation cooperatives in the Philippines. Access to irrigation provided a powerful incentive for cooperation among farmers, and the organizational experience gained in constructing and operating the system provided the basis for expansion into other areas. The fact that these organizations were small, and thus socially cohesive, was also significant.

Training is also crucial to cooperative development programs. Members must understand their roles in the cooperatives and how the organization operates. Moreover, farmers commonly lack the skills to operate cooperatives. Financial skills in accounting, auditing, and simple record-keeping are required to handle credit operations; marketing requires commercial skills. In addition, organizational management is needed to resolve conflicts among members.

Cultural factors also play a role in cooperative development. Societies in which groups or members, by choice, do not interact with others are often regarded as inappropriate environments for cooperatives.

Economic policy and conditions also contribute to the environment for cooperative development. The success of the Paraguay system is partially attributed to a favorable price for the crops marketed by the cooperative. In contrast, the future of successful irrigation cooperatives in the Philippines is clouded by the rapidly escalating cost of energy and other operating costs because prices for agricultural goods have not kept pace; income gains are increasingly being consumed by rising costs.

The following sections highlight critical elements disclosed in our review of the three countries to which AID should give greater consideration in planning and carrying out future cooperative development.

STRENGTHENING FARMER INVOLVEMENT THROUGH STRONGER LOCAL INSTITUTIONS

AID policy, supported by AID studies, stresses the necessity for target beneficiaries to be involved in identifying their needs and developing acceptable programs compatible with local conditions and customs for meeting those needs. Cooperatives offer the potential for promoting an extensive farmer involvement in programs intended for their benefit. To do so, however, strong functioning cooperatives at the farmer levels are essential.

Strong institutions facilitate the participation and control of the system needed to assure that farmers will benefit from the system. With a strong base-level institution, the cooperative provides an organizational framework to articulate needs to higher level cooperative organizations and governments and for undertaking other endeavors which benefit the members. And the successful delivery of services channeled through national or regional cooperative institutions by government or external donors to farmers depends on the existence of strong farmer institutions.

Despite the importance of local involvement and strong local cooperatives in achieving the goals of cooperative development, AID assistance to cooperative systems does not devote sufficient effort to this element. AID technicians have not always solicited input from cooperative members. In addition, the size of the local cooperative may be so large that extensive involvement of members in cooperative management has been eliminated. At other times, AID assistance has not adequately addressed the needs and problems of the local cooperatives.

Farmer input into development not obtained by AID technicians

To design a system that effectively serves farmers in Liberia, farmer input on priorities and local realities would seem desirable. Yet, under a program of technical assistance to Liberia's Ministry of Agriculture--aimed at developing plans for expansion and evolution of the cooperative system--information exchanges between AID technicians and farmers are not taking place.

Programing documents for the project emphasize the need to obtain the views of present and potential cooperative members. Farmer attitudes, knowledge, and the need for cooperatives are identified as essential in evolving the cooperative system. In addition, the request for technical assistance states that project technicians should spend most of their time "on site" at cooperatives. Yet, 18 months into the project, technical assistance team members spent most of their time in the capital city. As a result, little consultation between project technicians and cooperative members occurred.

The flow of information from farmers to project technicians is further obstructed by shortcomings in the Liberian field support system. Ministry of Agriculture field staff make infrequent visits to the cooperatives, and project technicians could not provide reports required from the field staff. Consequently, farmer perceptions and views are not communicated to the AID technicians through Liberian field staff.

Local cooperatives may be too large to facilitate farmer participation

Liberian cooperatives have yet to develop into institutions through which farmers can express their needs, promote their own economic well-being, or direct cooperative affairs. This failure may be attributed, in part, to the large size of local cooperatives in Liberia.

An AID-sponsored study of local institutions by the Cornell University Rural Development Committee 1/ which addresses the question of the appropriate size of local institutions, recommends a two-tier approach to structuring local cooperatives. The study calls for a base unit of 30 to 100 families. The small size permits local involvement, group cohesion, and development of local leadership. To achieve the scale necessary to perform commercial operations, these base units are knit together into larger organizations, consisting of perhaps a minimum of 1,000 members.

Small, informal cooperative units exist in Liberia, yet they were bypassed in designing the cooperative system. Farmers traditionally organize themselves into work cooperatives for rice production. Cooperative designers did not build on these traditional cooperatives because they were seen as lacking the structural permanence and scale to operate as commercial enterprises. Instead, Liberian farmers are organized into local cooperatives with as many as several hundred members.

1/"Local Organization for Rural Development in Asia," by Norman Uphoff and Milton S. Esman.

In contrast, the Philippines cooperatives are based on a system of small village organizations. Success of irrigation associations is linked with their small size and social cohesion. In the case of the cooperative marketing system, farmer input and training is intended to take place in village cooperative societies which average 50 members. These societies join together to organize credit and marketing institutions. To be effective, however, these societies require strengthening.

Cooperative organizations in the Philippines need strengthening

In the Philippines, minimal assistance is directed at needed strengthening of village marketing cooperative societies which comprise the base of the system. Strong village societies are vital, however, if AID-assisted organizations are to realize their goal of raising farmer incomes.

The village societies link farmers to regional and national cooperative institutions. AID assistance is directed at developing the capacity of regional and national institutions to provide credit and marketing services to farmers through village societies. Farmers are also expected to contribute capital to regional cooperatives through the village societies.

Extensive training was planned for cooperative members at the village level, and the village cooperatives were expected to contribute capital to organize marketing cooperatives. Of the 20,000 village societies organized since 1973, however, only 2,000 have met training and capital requirements. In addition, farmers have seen minimal benefits in return for their contributions of funds.

ADEQUATE HOST-GOVERNMENT SUPPORT NEEDED

The extent of host-government support significantly affected the relative success of AID cooperative development efforts. In some instances, agencies organizing cooperatives and providing training have not had the essential personnel and transportation; host-country personnel have been unavailable to work with AID technicians; and, in one instance, the Government has not adequately intervened on behalf of the farmers.

In the Philippines cooperative marketing system, efforts to strengthen the village societies are hampered by inadequate resources within the responsible agency. The Bureau of Cooperative Development--one of three bureaus within the Department of Local Government and Community Development--is responsible for organizing, training, and assisting the village societies. The Bureau does not, however, have its own fieldworkers. Field personnel are employees of the Department and are, therefore, responsible for implementing all three bureaus' programs.

With the rapid expansion of the cooperative system since 1973, the financial and manpower resources of the Bureau of Cooperative Development have been strained in meeting the needs of the 20,000 village societies. The ability of the field personnel to provide timely and concentrated assistance to the new cooperative system is extremely limited because of their multi-functional role. In one area we visited, for example, two field-workers cover all three bureaus' programs, including 59 cooperative societies.

As evident in the project paper, AID did not adequately consider host-government support. AID only considered those primary elements which directly affect implementation of AID assistance to selected regional marketing cooperatives. The project paper, for example, stated that the Central Bank--one of the implementing Philippine agencies--would employ six to eight profes-sionals to manage the cooperative finance system.

Adequate consideration was not given, however, to Government personnel required to assist those village societies which link the AID-assisted institutions to the farmer. Provision of education and training services to village societies was superficially addressed by simply stating that intensified training would be performed by the Bureau of Cooperative Development. No targets for the required field support were specified nor was Bureau access to money and staff considered. Insufficient support to the village societies affects the ability of farmers to benefit from AID assistance although it does not directly affect implementation of assistance to regional marketing cooperatives.

Although the basic weakness of the village societies and the inadequacy of field staff were not addressed during the project approval process, the problems were known. One AID-financed study, 1/ completed well in advance of the project approval, pointed out that only 21 percent of the village societies belonging to marketing cooperatives had completed the training required, in theory, to qualify for membership in the marketing cooperatives and only 1 percent had completed both the training and financial requirements. The AID study also noted that the targets for training members had been set too high, given the availability of trained government personnel and stressed that education and training of the members were the basis of a successful cooperative system.

In the Liberian case, cooperative development suffers because of inadequate trained personnel and budgetary support. Liberian counterparts to work with the AID-funded technical advisors have not been assigned for several months or changed frequently. Liberian field officers' capabilities to visit and assist the cooperatives--such as advising cooperative directors, managers, and members on cooperative legislation, registration and recordkeeping--have been hindered because no funds have been available for transportation.

AID designed the cooperative project believing that the Government would have adequate funds for cooperative development. The Government did budget $200,000 for personnel and provided an AID-administered trust fund with $25,000 for fuel and vehicle maintenance. The Government did not, however, provide transportation or adequate per diem for its field employees. According to the senior contract advisor, this has resulted in field officers providing little assistance to cooperatives.

Further, in Liberia actions are needed to ensure an equitable distribution of benefits to member farmers. In most of Liberia's functioning cooperatives, subagents who are frequently board members of the cooperatives purchase farmers' produce in the name of the cooperatives and resell it to the Liberian Produce Marketing Corporation, a Government-owned organization. Subagents pay farmers the lowest possible prices and retain half of the commission paid by

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1/"Cooperative Rice Marketing System Study," by Grigsby, et al, Agricultural Cooperative Development International.

the Marketing Corporation to the cooperatives. As a result, much of the profit and income goes to subagents rather than to the cooperatives or member farmers. AID and the Government of Liberia recognized this problem as far back as 1975. Minimal progress has been made to correct the problems in one county in Liberia, but more should be done if the benefits of cooperatives are to be equitably shared.

GOALS FOR COOPERATIVE DEVELOPMENT ARE UNREALISTIC

Unrealistic project goals have at times been set for cooperative development activities. Consequently, intended beneficiaries are not being reached, the real costs and actions required to reach the target population are obscured, and overly ambitious cooperative expansion has led to financial difficulties for the cooperatives.

In Paraguay, overly ambitious AID goals are linked with the development of loan-delinquency problems. Of the 29 rural cooperatives affiliated with CREDICOOP--the central cooperative assisted by AID--9 cooperatives face delinquency problems. When AID support for cooperative development was initiated in 1968, emphasis was on the rapid expansion of cooperatives and cooperative members. CREDICOOP management has said that AID set unrealistic goals to establish new cooperatives and to increase existing cooperative membership. Moreover, another goal of this project is to increase, by 50 percent, the net income of member farming families over a 5-year period, with a statistically significant increase over nonparticipating families.

To meet these goals, funds were loaned to farmers through member cooperatives without sufficient regard to their credit histories or to the ability of the cooperatives to repay these loans. The National Development Bank--which at that time was the source of external capital--with the encouragement of AID's contractor, allowed the cooperatives to borrow as much as 10 times their share capital. That situation combined with a policy which permitted the cooperatives to lend to all who applied for production credit loans, in addition to the inexperience of the involved organizations, resulted in loan delinquencies and to the potential insolvency of 13 cooperatives.

It should be noted that of the nine cooperatives which currently face insolvency, all are from the period predating the establishment of CREDICOOP in 1974, when steps were taken

to tighten loan procedures. One of these steps, a new membership strategy to consider farmer credit histories and repayment ability, reduces the number of approved high-risk or marginal loans, but contributes further to the shortfall in reaching the ambitious beneficiary goals.

In Liberia, AID assistance to the cooperative system is intended to improve farming incomes and the productivity of farmers. But a substantial proportion of the member farmers are not benefiting from the cooperative system. About 75 percent of Liberia's farmers are subsistence farmers; 24 percent of farmers produce cash crops on 5 to 10 acres of land; the remainder have large plantations. Cooperative members are drawn primarily from the cash crop group.

AID officials in Liberia stated there is little this project can do to help the subsistence farmer. These farmers produce primarily for consumption, are poorly educated, and really do not understand the cooperative concept. Thus, AID assistance goals are overstated because the system is not reaching most farmers. Farmers raising cash crops may be better able to benefit from cooperative assistance. Continued implicit inclusion of subsistence farmers in the target group, however, without adequately addressing their needs obscures the effort that may be needed and the effect of AID assistance.

NEED FOR BETTER EVALUATIONS

Although AID reports to the Congress that its project goals will increase productivity and income of the poor, some AID project evaluations do not examine what actual benefits, if any, cooperatives and their members are receiving. Evaluations usually measure success by increased sales volume and membership; however, they do not determine how many members are actively participating in the cooperatives or if the profits are equitably distributed.

A 1979 AID study which included discussions with 85 staff members of the AID central offices and regional bureaus, concluded that within AID there was "no solid consensus either about the relevancy of cooperatives to development or about the effectiveness" of U.S. cooperative activities in developing countries. Another AID study, including cooperative projects in Africa and Latin American, concluded that project staff should measure self-help capabilities and self-sufficiency to prod the project staff toward these goals.

In its fiscal year 1981 congressional budget presentation, AID states that during fiscal year 1979, the Agency placed renewed emphasis on evaluations. Evaluations focus on practical problems of project implementation and the effect of AID-supported programs on the poor. In addition, AID plans an agencywide evaluation system for completed projects in fiscal year 1981 which will judge the effects of development projects on the socio-economic well-being of the poor.

Recognizing these efforts and recognizing that the policy and beneficiary evaluation work of AID is relatively new, the quality of AID's cooperative project evaluations could be improved by more specifically examining the benefits to most participants.

In Liberia, we found that an interim evaluation of the agricultural project did not examine what benefits, if any, were being received by the cooperatives or their members. The measures of success included increased sales volume and increased cooperative memberships. The evaluation, however, did not address the facts that cooperatives are generally not serving subsistence farmers or that cooperatives are generally benefiting only a few select members.

Similarly, in Paraguay, AID project evaluations do not measure direct benefits to farmers, such as eventual increases in net income although the stated goal of AID's assistance is to increase the net income of cooperative members by 50 percent over a 5-year period. AID officials believe that CREDICOOP has effectively improved the standard of living of farmer members; however, they have not been successful in documenting these improvements.

For example, the results of interviews conducted by AID show that nonmembers of cooperatives perceived many economic advantages of belonging to a cooperative. AID said both members and nonmembers of cooperatives reflected positive attitudes about the cooperative movement in general and also toward CREDICOOP, but information on farmer incomes was not, and is not, being systematically recorded.

The Paraguay AID mission told us that they plan to conduct follow-up interviews in 1981 with farmers which will provide data on benefits, including increases in income by members versus nonmembers. We question, however, how (from existing information) AID can

measure its stated goal--a 50-percent increase in the net income of participating farmers over 5 years along with a statistically significant increase over nonparticipating farmers.

CONCLUSIONS AND RECOMMENDATIONS

Cooperative development is advocated by the Congress and is assisted by AID to strengthen the participation of the rural and urban poor in their own social and economic progress. AID's cooperative development efforts in the countries reviewed, although achieving some success, are not achieving the results AID initially planned or envisioned in foreign aid legislation. Many factors associated with the political, economic, and cultural environment seem to severely affect the relative success of mobilizing farmer development through cooperative endeavors.

Our review did not disclose any standard formula for AID assistance in successfully dealing with these factors in various developing-country environments. It did disclose, however, that the potential for successful results could be greatly enhanced by giving more attention to the elements disclosed in various studies and in AID's own experience, that contribute to success or failure. This can only be done through better planning, programing, implementation, and evaluation.

Cooperative development assistance is not a panacea for realizing development goals; however, we believe the success of AID's cooperative efforts in realizing a better life for the poor can be better insured by giving attention to the matters highlighted in this report.

Greater attention in strengthening basic institutions and farmer participation in them is needed, particularly when assistance is being directed to national and regional institutions. Local institutions link the farmers--the intended assistance beneficiaries--to regional and national organizations. Thus, strong, viable institutions at the local levels are necessary if the benefits are to reach the farmers. At the same time, farmer participation in defining priorities for evolution of the cooperative system is required if their needs are to be addressed and met. We believe that these issues should be addressed during the project design and approval process and carefully monitored during project implementation. Assistance to a particular link in the chain--from farmers through

national/regional cooperative institutions or host-government agencies--should not proceed without addressing whether these critical links to achievement of project goals are functioning.

We believe several additional factors deserve closer attention during the project design and approval process. First, host-government contributions necessary to implement the projects and achieve project goals should be specifically defined and documented. We recognize that AID attempts to consider such support and may have little control if such support does not materialize; however, needed government support which affects overall project goals may at times be overlooked, underestimated, or its effect ignored if it is not readily available. Clearer definition of the amount of government budget support, personnel, and other actions needed to achieve goals would permit AID to better determine the likelihood that such support will be provided as well as what effect it might have on project goals if it is not available.

Second, efforts should be made to establish project goals which can be realistically achieved. Unrealistic goals which generate overly ambitious expansion rates can jeopardize a viable, functioning system. Exaggerating the number of beneficiaries undermines the real costs and actions needed to help them and tends to overstate the results that may be obtained with the assistance.

Measuring achievements is receiving increased attention within AID. We believe the quality of AID evaluations can be improved by placing greater emphasis on how cooperative participants are benefiting and on issues such as farmer control of cooperatives. Evaluations have at times focused on measuring total profits of the cooperatives but have not focused on how well actual services and income are accruing to the farmer members.

Because project evaluations have not adequately considered the economic benefits to the cooperatives and their members, they have not provided significant data on key issues, such as

--how cooperatives can better serve farmers;

--how a broad sharing of benefits can be achieved; or

--what other steps can be taken by host governments, cooperatives, and AID for effective cooperative development.

To improve the effectiveness of AID cooperative development efforts through better planning, programing, implementation, and evaluation, we recommend that the AID Administrator

--when providing assistance to regional and national organizations for cooperative development, develop mechanisms to assure that farmers are benefiting from the assistance by assessing the needs and problems of farmer organizations which link the assisted-institutions to the farmers;

--in addition to working primarily at the headquarters level of government and other concerned organizations, devote more efforts to obtaining farmer views on their problems, needs, and priorities in designing and developing cooperative systems for their benefit and to promoting farmer participation in eventually controlling cooperative activities;

--insure that development funds are not dissipated because recipient countries cannot or do not provide the necessary financial or other support, such as local counterparts to AID personnel;

--set realistic cooperative goals, particularly the number of beneficiaries to be reached--especially in light of the limited AID assistance; and

--improve the quality of cooperative project evaluations by focusing on actual benefits to the majority of participants rather than on factors such as the number of cooperative members.

AGENCY COMMENTS

AID officials said these recommendations were compatible with its new policy on cooperatives and with current thinking and planning regarding future cooperative development projects. AID said it will insure the following.

1. Adequate attention is given to assuring that mechanisms exist to guarantee that benefits reach the local farmers and that effective base-level cooperatives exist as links with regional or national cooperatives.

2. Future cooperative development projects are structured in such a way that direct farmer participation and control of base-level cooperatives is provided for and that AID-assisted work is not exclusively with headquarters.

3. Steps are taken to more fully assure that the commitments of recipient-country staffs and resources are realistic in terms of need and that such commitments are met in tandem with the commitment of U.S. resources.

4. Realistic goals are set in terms of the number of proposed beneficiaries.

5. Evaluations focus on actual benefits to participants in addition to such other factors as are appropriate.

CHAPTER 3

COOPERATIVE ACTIVITIES IN THE PHILIPPINES, PARAGUAY, AND LIBERIA

Country-specific matters require AID's attention in the Philippines, Paraguay, and Liberia if its cooperative development assistance funds in those countries are to be more effectively used. Our review surfaced serious questions in some instances as to what extent AID cooperative assistance efforts were helping the poor.

BUILDING COOPERATIVE ORGANIZATIONS IN THE PHILIPPINES--CONTRASTING EXPERIENCES

AID strategy in the Philippines is to assist those government programs aimed at increasing farmer production and income and encouraging farmer participation in those programs. Our review of two AID programs indicates that this strategy has been successfully applied in the development of farmer irrigation organizations, but may need to be redirected to support farmer organizations forming the base of the cooperative marketing system.

Irrigation Cooperatives

An AID assisted program in small-scale irrigation has benefited farmers. Farmers, organized into Irrigation Service Associations, can actively participate in decisions that affect their development. Farm yields have increased because of these groups and because of the successful irrigation efforts.

AID has provided technical and capital assistance under the Small Scale Irrigation and Small Farmer Systems projects since 1976, and support is projected to continue through 1985.

The current program grew out of the government's 1972 commitment to develop irrigation as a means of raising agricultural productivity. Early concentration on the construction of large-scale irrigation systems, was modified to provide farmers with an institution tailored to their needs through which information and training on the use of irrigation water could be channeled.

In 1975, the Farm Systems Development Corporation was created to support the development of small-scale irrigation and organization of irrigation cooperatives. The Corporation is charged with providing irrigation facilities; developing institutional capacity to construct, operate, and maintain

these systems; and introducing other farm innovations and rural enterprises necessary to raise the productivity, income, and self-reliance of farmers.

Farmers are organized into cooperatives, called Irrigation Service Associations, to construct and operate the system. Association memberships average 80 farmers, each of whom cultivates about 1.3 hectares.1/ The Associations are further divided into smaller groups of 15 to 20 farmers to facilitate active participation in decisionmaking. Farmers participating in the system numbered 67,000 as of June 1979. The program has thus far reached approximately 9 percent of potential beneficiaries.

Success of the program

The program has succeeded in building a network of village-level farmer cooperatives, organized around the need for irrigation. Program success is attributable to several factors.

Irrigation provides a strong focus for cooperative activity. Farmers recognize irrigation as necessary to increased incomes and economic security, thus providing tangible benefits for participation in the association. Achieving access to irrigation water requires cooperation in system construction and operation, leading to the development of the organizational capacity for expansion into other activities.

Associations receive intensive support from field workers. Farm Systems Development Corporation staff provide intensive field support for association organization and development. Until recently, each worker was assigned to only two associations. Currently, the field staff operates in teams of three, covering up to 12 associations. A community member trained by the Corporation in institutional development oversees day-to-day implementation tasks.

Training of association members is stressed. Each phase of the association development program involves extensive training. With the assistance of field staff, farmers are taught the organizational, financial, agricultural, and commercial skills necessary to manage and improve their incomes and production.

1/Hectare is equivalent to 2.5 acres.

Program model is adapted to local needs. The Corporation operates on a schedule detailing the order and timing of association development activities, however, the Corporation also emphasizes flexible implementation of the model, and actual introduction of various farm innovations depends upon the desires, progress, and capabilities of the associations.

Decentralized management facilitates responsiveness to Association needs. The Corporation's program implementation is delegated to five area offices, which brings decisionmaking closer to the village level, and allows for quick response to association problems.

With the organization of farmers into Irrigation Service Associations and the introduction of irrigation, farm yields have increased by an average of 32 percent a cropping and the number of croppings a year has increased. Moreover, the organizations provide farmers with a mechanism through which they can participate in decisions affecting their development. By establishing the capacity and vehicle for managing available resources, the association enables farmers to promote their own economic well-being.

Despite the success, however, progress is not assured because the irrigation cooperatives are influenced by unfavorable economic conditions. A majority of the cooperatives use pump irrigation equipment which requires gasoline to operate. Energy costs and other operational costs have escalated rapidly. Prices for products, set by the government, have not kept pace with rising costs. As a result, the production gains obtained by irrigation are increasingly being consumed by rising costs, threatening the financial viability of the Associations and their members.

Cooperative marketing project

Under the Cooperative Marketing Project, AID is providing $6 million for developing regional and national cooperatives which provide credit and marketing services to farmers. Minimal AID assistance is directed at strengthening the village-level institutions which form the basis of the system and are the vehicles through which farmers participate in the cooperative system. The cost of assisting these village-level organizations is high, and in addition to more AID assistance, requires additional resources from the Philippines Government.

Development of the cooperative marketing system

In 1973, the Philippines Government inititated a new cooperative system designed for farmer representation and participation through organized village-level associations.

Members will undergo a comprehensive training program and will contribute to various capital accumulation funds. When training is complete and the proper amount of capital is accumulated, these village groups (averaging 50 farmers each) may, together, form credit and marketing cooperatives.

Minimal assistance directed to village societies

The cooperative system has expanded rapidly. Since 1973, some 20,000 village societies have been organized although only 2,000 have met training and capital requirements. The rapid expansion of the system since its inception has generated several problems including

--limited government resources to provide needed assistance to an expanded system, in particular to village-level organizations and

--slow development of marketing and credit services of regional cooperative institutions due to lack of capital and management expertise.

AID assistance is directed almost exclusively at the latter problem. Under the Cooperative Marketing Project, AID assistance is directed at increasing the access of regional marketing cooperatives to adequate financing and managerial capabilities. Key features of the project include (1) loans to about 15 regional marketing cooperatives; (2) establishing a group within the Central Bank to specialize in the financing needs of regional marketing cooperatives; (3) technical assistance to national cooperative institutions; and (4) training cooperative personnel. Although assistance at this level is needed, strong village organizations are also critical to the success of the system and the ability of AID-assisted institutions to deliver benefits to the farmers.

The village societies are the main links in the cooperative system in providing intended services and benefits to the farmers and in obtaining capital contributions from farmers. Moreover, farmer participation and control of the system is channeled through the village societies.

Although over one million farmers have contributed over $12 million to developing the cooperative marketing system since 1973, farmers have seen minimal benefits in return. The credit and marketing organizations will not be fully operational for some time to come.

A 1977 AID pilot project to six village societies demonstrated that the societies could be strengthened. As a result of the project, membership and savings increased considerably

and farmers were provided with immediate and tangible benefits. In 1979, a new $640,000 project expanded coverage to 150 village societies.

Rapid expansion in the number of village societies, prompted in part by mandatory membership of land reform beneficiairies, has also strained Philippines Government resources. In one area, two fieldworkers were responsible for 59 village cooperatives as well as other community development projects. The resources of the responsible Government agency in terms of money and qualified personnel has reached the saturation point, preventing any expansion of current programs.

An AID estimate of the assistance needed to strengthen 15,000 of the 20,000 village societies came to $80 million, suggesting the need for other donor participation. The Asian Development Bank has expressed interest in assisting the cooperative system. In early 1979, AID became aware of a Bank proposal which was a near duplicate of the AID program of assistance to regional marketing cooperatives. In subsequent meetings, tentative agreement was reached for the Bank to withhold support for the regional marketing cooperatives in light of the existing AID project. In May 1979, the Philippines Government requested $15 million in assistance from the Bank to support 672 village societies. The requested support is quite similar to assistance being provided under the 1979 AID pilot project.

CONCLUSIONS

Assistance to irrigation cooperatives in the Philippines has concentrated on building a network of strong local-level organizations. Success of the system is attributable, in part, to its ability to quickly deliver a tangible benefit as well as the intensive field support provided to individual associations. Such features are lacking in the cooperative marketing system. AID assistance is focused on building the capacity of regional and national institutions to deliver credit and marketing services to farmers. Minimal assistance is directed toward the village institutions which form the base of the system, and fieldworkers have difficulty in providing the needed support.

Strong village societies appear to be essential to the success of the cooperative credit and marketing system. The apparent success of the AID pilot project indicates that these societies may be strengthened with additional technical and financial resources. Consequently, we believe a determination needs to be made as to the feasibility of helping these societies and to the potential for making more resources available, if warranted.

RECOMMENDATION

Therefore, we recommend that the Administrator, AID

--assess the feasibility of providing more resources to help village cooperative societies;

--if additional assistance is warranted, explore ways to provide more AID and other donor resources and to obtain necessary support from the Philippines Government; and

--if additional AID and other donor and Philippines Government support is not forthcoming, explore alternatives which will assure that the AID assistance now being provided to regional marketing cooperatives will reach the intended beneficiaries.

AGENCY COMMENTS

AID officials said they had no particular problem with the analysis of the regional marketing cooperative project in the Philippines. AID will address changes needed to insure village-level cooperative development in its planning and review, prior to second-year funding. In commenting, AID officials questioned whether we considered certain private and Peace Corps activities at the village level. The private activities are the pilot project discussed in the report, and the Peace Corp activities were directed primarily at the regional marketing cooperatives.

AID ASSISTANCE TO CREDIT COOPERATIVES IN PARAGUAY IS ACHIEVING LIMITED SUCCESS

AID strategy in Paraguay is focused on the small farmer and seeks to address the problems of rural poverty by creating a system to provide credit, technical assistance, and marketing services to farmers and to insure the participation of the poor in that system. To this end, AID has provided over $5 million since 1968 to build a system of cooperatives in Paraguay. Such assistance in currently channeled to 29 rural cooperatives through a private, central cooperative: CREDICOOP.

CREDICOOP is providing needed services to some farmers but to fewer than expected; actions to minimize loan delinquencies are not satisfactorily working and will reduce the number of farmers who can benefit from the cooperatives. Continued CREDICOOP services to farmers may be heavily dependent on AID support. Favorable economic and improved political factors have significantly contributed to the success achieved thus far, however, any unfavorable change in these factors may affect the continued operation of the cooperative system.

Self-sufficiency goal:
effect on the AID target group

The purpose of AID assistance is to enable CREDICOOP to be financially self-sufficient while providing credit, technical assistance, and marketing services to farmers through rural member cooperatives. Although most CREDICOOP cooperatives are moving toward, or have already achieved, self-sufficiency, loan delinquencies continue in several rural cooperatives which predate the creation of CREDICOOP. Past, unrealistic AID project goals and a resultant rapid expansion in the number of cooperatives and members contributed to these problems.

Steps have been taken to address these problems. A stabilization program was established to provide monies through CREDICOOP to those cooperatives with outstanding debts and to concurrently provide technical assistance in appropriate operating procedures.

The stabilization loan fund has not fully resolved the delinquencies of the participating cooperatives. Thirteen problem cooperatives, which were established before CREDICOOP, became part of the system. The stablilization fund was instrumental in helping 4 of the original 13 problem cooperatives; however, the fund is not adequately solving the problems of the remaining 9 cooperatives which face insolvency. At the time of our review, only 56 percent 1/ of the target for repayment of old loans had been met; only about 25 percent of the target for repayment of stabilizations funds to CREDICOOP had been reached. In addition, less than half of the cooperatives have adopted adequate marketing and loan-repayment policies despite CREDICOOP's efforts. AID has recommended that a review be made to improve this situation. This proposed review is limited, however, to credit collection procedures and does not address the underlying causes of insolvency.

CREDICOOP has adopted a new membership strategy in which potential members are screened, taking into account such factors as credit histories and repayment abilities. This membership policy seeks to achieve a more rational expansion of the system and to avoid earlier problems of haphazard growth. While increasing the chances for stronger cooperatives, the membership strategy will reduce the participation of high-risk or marginal farmers in future CREDICOOP operations. If AID is to continue its assistance to this group, other means must be found

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1/AID has stated that this figure has increased to 71 percent; however, we have not verified that information.

to do so. For example, one Catholic Relief Services project identifies those farmers in areas served by cooperatives considered too high-risk to receive credit and services. The organization then works with those individuals to bring them to a level where they can benefit from the cooperatives. The project is currently operating on a very limited scale.

Of additional importance to the role of the farmer in CREDICOOP operations are the over 10,000 nonfarmer members compared to over 5,000 farmer members. A 1975 study of CREDICOOP by Development Alternatives Incorporated pointed out potential problems which exist in a system which serves rural and urban members. These problems were reiterated during our fieldwork.

The 1975 study shows that although normally farmers and nonfarmers in rural areas represent two distinct, and often antagonistic, communities of interest, the system established in Paraguay allows mutual interests to be pursued. Farmers benefit by gaining access to agricultural credit and can request loans from cooperative capital for nonagricultural uses. Nonfarmers benefit because savings contributed by farmers increase the total supply of cooperative capital available for meeting their credit needs. Of course, the report goes on to say, this mutuality of interest holds only as long as farmers invest more savings than they demand on cooperative credit resources.

As the project nears completion and CREDICOOP's access to outside grant capital diminishes, it will need to draw on its own resources to provide production credit and services to the farmer members. As long as these activities are profitable, there is no conflict. If CREDICOOP farmer operations constitute a drain on the resources of the system, these services may be decreased to prevent a depletion of capital.

The 1975 development study found that the probability of conflict increases when cooperative decisionmakers are nonfarmers. At the time of the study, there was minimal representation of farmers in decisionmaking positions. According to CREDICOOP advisors, this remains a problem because CREDICOOP has not paid enough attention to the proper combination of urban/rural membership on cooperative boards.

AID should consider this area more carefully because there is no assurance that CREDICOOP, after AID assistance ends, will continue to address the needs of farmers through continued participation in and access to the resources of the system.

Cooperatives depend on favorable host-government support and economy

AID officials and representatives of other participating organizations believe host-government support is vital to the success of development assistance in general and specifically to cooperatives, and improved political and favorable economic conditions in Paraguay have contributed to CREDICOOP's effectiveness thus far.

One important benefit the cooperative system receives from the Government of Paraguay is a tax break on cotton exported through the cooperatives. Cotton represents 96 percent of the total volume and 98 percent of the total revenue of CREDICOOP marketing operations. A continuing high international demand and concurrent favorable prices for cotton have assured high production in Paraguay and profits for those farmers who market through CREDICOOP.

In an unprecedented move in 1974, the Government guaranteed the $3-million loan from AID to CREDICOOP through its National Development Bank. In addition, the Government contributes annually $2,000 to CREDICOOP, and several other cooperatives obtained their office sites from the municipal government at nominal prices.

CONCLUSIONS

AID assistance to CREDICOOP in Paraguay has provided needed input and services to farmers, and advances have been made in the development of a self-sufficient institution. However, self-sufficiency problems in one-third of the rural cooperatives, which predate the creation of CREDICOOP, continue. AID actions, although likely to minimize future delinquencies of this magnitude, have not been satisfactory. Increased education and assistance are not having the desired results. Further, the new membership strategy may minimize future delinquencies but has disturbing implications for the CREDICOOP commitment to serving the AID target group.

The inclusion of nonfarm members has provided additional resources and an expanded pool of knowledge to the system. However, continuing the balance thus far maintained, without the infusion of external capital is an issue which has not been addressed and needs to be addressed by project managers.

The operation of the cooperative system has been dependent on host-government support and on favorable prices and export demand for the principal crop marketed through the cooperatives: cotton. Consequently, any unfavorable change in either the political climate or the cotton market could have a devastating impact on the viability of the cooperative system.

Over a decade of AID assistance has resulted in the creation of a system of cooperatives in Paraguay. In addition, it has provided credit and services to many farmers through this system. The cooperatives, under the umbrella of CREDICOOP, are approaching self-sufficiency. Probems remain, however, which AID should address before this project ends in 1981 to assure continued assistance to farmers in Paraguay.

RECOMMENDATIONS

We recommend that the Administrator, Agency for International Development, take appropriate actions to determine

- --the causes for cooperatives not repaying delinquent loans, and identify and carry out appropriate solutions;

- --the effect on the majority of poor farmers of the new membership strategy which limits cooperative membership to low-risk farmers (those most likely to repay loans); and

- --the potential of CREDICOOP continuing assistance to farmers after AID assistance is withdrawn because of a majority nonfarm membership.

AGENCY COMMENTS AND OUR RESPONSE

The AID Mission in Paraguay and GAO have fundamentally different perceptions of the status and effect of the CREDICOOP project in Paraguay. Although acknowledging that the issues raised by GAO are relevant insofar as they address problems which have emerged during the several years of the project's operations, AID is satisfied that CREDICOOP has initiated appropriate action to solve the problems reported in the draft report.

Because we have concentrated on those areas which require further attention, we have given less attention to the positive effect the AID project has had in creating

the system of credit unions in Paraguay or to the credit and services provided farmers. As the project ends in fiscal year 1981, our concern is that the successes of CREDICOOP in servicing farmers continue after AID assistance ends.

We have clarified our concerns in the report. As discussed below, we do not agree that the actions taken address all the problems.

DELINQUENT LOANS: AID COMMENT

The CREDICOOP credit unions are effectively dealing with delinquency problems through stringent credit controls established for this purpose. Realistic measures have been implemented to increase reserves and to provide for the aging of loans. The stabilization fund has been instrumental in helping the nine near-bankrupt cooperatives solve their delinquency problems. Most CREDICOOP cooperatives are approaching, or already have achieved, self-sufficiency.

GAO Response

There are two facets of the delinquency issue. When CREDICOOP was established in 1974, it adopted procedures and controls to deal with delinquencies. We found these actions to be effective in the rural cooperatives established in the period since then. We have revised the report to more clearly distinguish between the nine rural cooperatives which still face delinquency problems and those which have been established since the creation of CREDICOOP. We disagree, however, with the AID conclusion that the measures adopted under the stabilization fund have solved the delinquency problems of the nine near-bankrupt cooperatives. As this group constitutes nearly one-third of CREDICOOP's rural cooperative members, we believe the problems remain serious. Although AID has taken action in regard to the remaining nine cooperatives, these efforts continue to have unsatisfactory results. If the problems are to be resolved, further action is needed.

NEW MEMBERSHIP STRATEGY: AID COMMENT

Membership growth has been purposely curtailed to bring it within the capability of CREDICOOP's management. As noted, the haphazard growth of the past produced a serious problem regarding loan management. The new membership strategy is resulting in the formation of strong cooperative farmer groups necessary for effective membership expansion and for viable services to farmers. These steps will provide sounder, albeit slower, growth.

GAO Response

We have not taken issue with actions by CREDICOOP to avoid repeating early growth problems. Our concern is with the effect this action has on reaching AID target groups. To ensure viability, the new membership strategy necessarily excludes farmers who are low or marginal credit risks. Our concern is how this larger group of excluded farmers can gain access to needed services and credit.

CONTINUING ASSISTANCE TO FARMERS AFTER THE END OF ASSISTANCE: AID COMMENT

CREDICOOP does not agree with the GAO analysis of the potential incompatability of urban and rural members. The long-range CREDICOOP plans call for the integration of small farmer services of a viable nature, including processing facilities. A cotton gin will shortly be added to the services offered to farmers.

GAO Response

This problem has not yet been a serious one. And as the report points out, precluding a serious problem may hinge on the success of the planned "integration of small farmer services of a viable nature." Because of the high ratio of nonfarmer to farmer members and because of the need to include farmers in policymaking decisions, we believe AID needs to address this issue while still involved with the project.

VIABILITY OF CREDICOOP: AID COMMENT

By the end of 1979, CREDICOOP had achieved 87 percent of self-sufficiency; complete self-sufficiency is anticipated by the end of 1981. As CREDICOOP reaches its break-even point, the necessity of AID or other external sources of continuing assistance will continue to diminish. Further, the mobilization of member savings continues to put CREDICOOP in a stronger, more independent financial position and makes improved credit services to the rural areas possible. As these resources grow, the need for external capital decreases.

GAO Response

We have clarified the report to show that the primary concern is the continued ability of the system to respond to farmer needs rather than to the self-sufficiency of the total system which includes roughly two-thirds nonfarmer membership. Because of the large nonfarmer membership and because of the

political and economic factors affecting the farmers, we believe AID needs to show concern for continued provision of credit and services to the project target group.

MUCH MORE NEEDS TO BE ACCOMPLISHED TO ACHIEVE A FUNCTIONING COOPERATIVE SYSTEM IN LIBERIA

In August 1977, the Government of Liberia and AID signed a grant agreement for $1.4 million for an Agricultural Cooperative Development Project. This project is designed to increase Liberian farmers' productivity and income and their ability to participate in the agriculture economy through fostering development of an effectively structured and functioning cooperative system. The 3-year project provides technical assistance from a three-person advisory team to (1) install adequate Ministry of Agriculture services to operational cooperatives of farmers, (2) analyze issues basic to the expansion and evolution of the cooperative system, and (3) use conclusions from the analysis and project experience in planning for a phase II follow-up project. Eighteen months into the project, AID assistance is hampered by obstacles, permitting little progress toward improving the productivity and income of farmers through the cooperative system; the majority of farmers do not benefit from the cooperative system.

Majority of farmers do not benefit from cooperative system

Liberia's agricultural sector is comprised of three groups: (1) subsistence farmers, 1/ accounting for roughly 75 percent of the farming population; (2) small cash-crop 1/ farmers, accounting for roughly 24 percent of the population; and (3) large cash-crop farmers, accounting for about 1 percent of the population. Cooperative membership is drawn primarily from the second group; subsistence farmers have little involvement with the cooperative system.

1/According to Agency comments, 99 percent of the farmers in Liberia have a maximum of 7 acres under cultivation. The smallest would cultivate less than 1 acre. Median size of all farms is 3.5 acres. A recent study of 250 subsistence farmers in Nimba County, with acreage near the national median, found that most were raising cocoa and/or coffee which is channeled into the commercial sector.

Although farmers are the intended beneficiaries of AID support for cooperative development, subsistence farmers have little capacity to benefit from the system. These farmers lack the education and skills to actively participate in cooperative affairs and they produce primarily for household consumption.

An AID Mission official expressed the view that there was little the cooperative could do for the subsistence farmer. Before these farmers can be viable cooperative members, efforts must be directed at training farmers and expanding their production of cash crops.

Obstacles to functioning cooperative system not overcome

In trying to assist even those farmers who can take advantage of the system, the cooperatives in Liberia face several obstacles. Little progress has been made under the AID project to overcome these obstacles. One of the most critical problems facing the cooperative system is its domination by traditional middlemen. These agents who are frequently cooperative officers, purchase farmer produce and resell it to the Government marketing corporation. The system does not insure farmers a fair price and most of the profit from resale of the produce accrues to the agents personally rather than to the cooperatives. Although AID officials recognize that Government actions are necessary to curtail the role of agents, it has not adequately promoted such actions.

A scarcity of management and technical skills also plagues the system. Upgrading the skills of cooperatives managers was supposed to be accomplished under the AID project through (1) training courses for cooperative officials by AID contract technicians and (2) training of Government field staff, responsible for assisting cooperatives. Yet, only one training course for cooperative managers had been conducted during the first 18 months of the project. And although several training sessions for Government field staff have been held, infrequent visits by field staff make it unlikely that the training has filtered down to cooperative members and managers.

Both field support and the policy framework under which cooperatives operate fall under the purview of the Government Cooperative Division. A primary goal of AID assistance is to upgrade the capability of the Cooperative Division; AID advisors are to work with Government counterparts providing on the job training and technical assistance.

However, efforts have been stymied by the Government's failure to assign counterparts or frequent changes in counterparts assigned. Intended counterparts for AID technicians included the director of the Cooperative Division and the senior training coordinator.

During the first 18 months of the project, there have been three Cooperative Division directors. In addition, the AID training advisor did not have a counterpart for the first 6 months of the project. As a result, the advisor actually ran the training section, and there was no transfer of knowledge. A counterpart was finally assigned to the training advisor; however, this individual stayed on the job only 10 months, and as of October 1979 the training advisor was again without a counterpart. These personnel problems have delayed the AID team's effort on structuring the Cooperative Division.

CONCLUSIONS

Efforts to build a cooperative system responsive to farmer needs have met with little success thus far. Because the cooperative system has had little impact on a large number of Liberian subsistence farmers, AID should reexamine its strategy for assisting Liberian subsistence farmers, identifying the role of cooperatives in that strategy.

The planned phase II follow-up project should not be funded unless progress is achieved in overcoming obstacles. Some progress is necessary to demonstrate the likelihood that cooperatives can serve as a development tool for Liberian farmers.

RECOMMENDATIONS

We therefore recommend that the Administrator, AID,

--reexamine AID's strategy for assisting farmers in Liberia, defining the role of cooperatives in that strategy; and

--not support the planned phase II follow-up project unless substantial progress can be demonstrated in overcoming the obstacles which are hampering success of the current project.

AGENCY COMMENTS

AID officials basically agree with observations of the cooperative program in Liberia. The Mission concurs that any second phase of the project must await the sorting out of political events and a clear signal that the Government of Liberia support for cooperative development will be reflected by changes in operational style and level of support. These and other relevant issues will be closely examined in the upcoming evaluation of the project.

As to the problem of middlemen or subagents who primarily benefit from cooperative activities, the Mission believes that it has made some progress in dealing with the issue and suggests the following as steps to further deal with the problem:

--establishing small community-based cooperatives as the model of the future, an approach which will build on existing indigenous organizations and set the cooperatives within a familiar social structure;

--hiring more competent, cooperative staff, improving pay scales and better training;

--stopping patronage dividends (commissions) for several years in order to strengthen the economic position of the cooperatives;

--establishing cooperatives as buying points so that farmers can be saved large transportation costs; and

--prohibiting loans to middlemen to purchase produce.

The Mission points out, however, that developing alternative systems to deal with the problem of the middlemen or subagents who dominate the purchasing of farmer commodities is a complex issue. Their existence and the utilization of them by farmers are based on strong historical, cultural, and social reasons which will not immediately disappear even if a successful cooperative system were quickly established.

APPENDIX I

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

AUDITOR GENERAL

May 23, 1980

Mr. J. K. Fasick, Director
International Division
U.S. General Accounting Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Fasick:

Thank you for providing the draft General Accounting Office report, "Improvement in Cooperative Development Requires Concentration on Critical Factors Affecting Success," for comment. The report has been reviewed with interest by the responsible offices. Provided herewith is the Agency comment provided by the Assistant Administrator for Development Support, whose bureau has primary responsibility.

We would appreciate your consideration of these comments in preparing your final report, but do not consider it necessary to include them as an attachment as mentioned in Mr. Fasick's letter of April 28 transmitting the draft.

Sincerely yours,

Herbert L. Beckington

Enclosure

APPENDIX I

Agency for International Development Comments on the GAO Draft Report, "Improvement in Cooperative Development Requires Concentration on Critical Factors Affecting Success," dated April 28, 1980.

The Agency for International Development (A.I.D.) finds the GAO draft report a helpful additional perspective on its work in cooperative development.

Two significant provisos are offered initially in terms of response to the report. First, the examination of these projects in three countries should not be viewed as reflective of all that A.I.D. is doing in cooperative development. During FY 1979 and FY 1980 A.I.D. will have supported 160 projects in 47 countries where cooperative development was a focus of all or part of the development activity. These 160 projects were funded during this period for approximately $65,000,000. The four projects examined by GAO accounted for only some $5,000,000 of this total.

Second, coincidental with the GAO review, A.I.D. has been engaged in its own examination of its history of assistance to cooperative development and its use of U. S. cooperative organizations in that effort. Portions of that examination are still under way and certain steps proposed (some referred to in the GAO report) have not yet been fully implemented.

I. Recent A.I.D./Washington Actions

As noted in the GAO report A.I.D., as a major step in its review, recently adopted a formal policy on its relationship with U. S. cooperative organizations. This policy reaffirms that all A.I.D. assistance to cooperative development must be consistent with the Foreign Assistance Act goal of program and service delivery to the poor. It directs attention of U. S. cooperatives to less established cooperatives and encourages direct relationships between U. S. and cooperatives in the developing countries.

A.I.D. recently submitted to the Congress a report concerning its total support for cooperative development for the period FY 1978 - 1980. The compilation of this report was an important first step in a more thorough agency-wide examination of what works and what doesn't in the field of cooperative development.

Third, A.I.D. recently submitted a report to the Congress concerning its work in support of credit union development, one of the more successful stories of grass roots cooperative development. The report indicated A.I.D.'s intention to continue a major effort in assistance to this program. A.I.D. views this as important because credit unions are often the first and simplest method of introducing cooperatives at the village level.

Fourth, while the Agency did recently examine some of its overall experience in cooperative development (summarized in the Agricultural Development Council report "Cooperatives and the Small Farmer), A.I.D. accepts as legitimate the criticism that it has not summarized its experience in cooperative development as fully as it might and in ways that would be most helpful to its field missions. Steps are underway to correct this.

II. Actions Underway, A.I.D./Washington

A. An assessment of the institutional support grants provided by A.I.D. to the U. S. cooperative development organizations (the group which implements the greater portion of the cooperative development programs) is being undertaken during the period June 1 - September 30, 1980. The examination will look at, among other things, the degree to which the operational approaches of these groups are directed at reaching the poor and the degree to which these groups have an approach to and a commitment to doing cooperative development at the grass roots. It will also examine the evaluation system utilized by these groups to determine the degree to which attention is given to such qualitative factors as those listed in the GAO report. Consideration will be given to the possibility of developing a unified evaluation system which would provide for a systematic evaluation of all cooperative development projects utilizing a common set of success indicators.

The assessment will also have a retrospective aspect to it, identifying A.I.D.'s evaluations of cooperative projects dating back to 1962. It will include an examination of these to determine useful insights which can be of use in future projects.

B. In new grants to the cooperative development organizations provision will be made for a series of summary papers dealing with the collective experience gained in the implementation of different types of cooperative development projects. This will provide the data for a collective institutional memory to be utilized by A.I.D. and cooperative organization personnel as they plan new projects of a similar nature.

C. A program notebook on cooperative development is under preparation which will, upon completion, be sent to all A.I.D. field missions and provided to A.I.D./-Washington program offices. It will be a cumulative program file dealing with U. S. cooperative organizations and with A.I.D.'s cooperative development experience. It will include information on evaluations and address the factors which contribute to or limit success. This program notebook will go to the field before the end of the current fiscal year.

III. General Recommendations

The Agency finds the recommendations on page iii of the draft report to be compatible with the new A.I.D. policy on cooperatives and with thinking and planning regarding future cooperative development projects. A.I.D. will insure that:

A. Adequate attention is given to assuring that mechanisms exist to guarantee that benefits flow to the grass roots farmer and that effective base level cooperatives exist as a link with regional or national cooperative efforts.

B. Future cooperative development projects are structured in such a way that direct farmer participation and control of base level cooperatives is provided for and that A.I.D. assisted work is not exclusively with headquarters operations.

C. Steps are taken to more fully assure that the commitments of recipient country staff and resources are realistic in terms of need and that such commitments are met in tandem with the commitment of U. S. resources.

D. Realistic goals are set in terms of the number of proposed beneficiaries.

E. Evaluations focus on actual benefits to participants in addition to such other quantitative or qualitative factors as are appropriately examined.

IV. Field Response to the Draft Report

A. Liberia

USAID/Liberia is in basic agreement with the observations of the cooperative program in Liberia. This has been a problem plagued project, the future of which is now even more cloudy because of recent events in Liberia. The Mission concurs that any second phase of the project must await the sorting out of political events and a clear signal that the Government of Liberia support for cooperative development will be reflected by changes in operational style and level of support. These and other relevant issues will be closely examined in the upcoming evaluation of the project.

USAID/Liberia feels that the GAO report errs in its attempt to too sharply divide Liberian small farmers into the two categories of "commercial" and "subsistence." In fact, they are blurred. Ninety-nine percent of the farmers in Liberia have a maximum of seven acres under cultivation. The smallest would cultivate less than an acre. Median size of all farms is 3.5 acres. Further, a recent study of 250 subsistence farmers in Nimba County, with acreage near the national median, found that most were raising cocoa and/or coffee which is channeled into the commercial sector. To fail to recognize this type of activity in classification of farmers is to confuse the issue.

USAID/Liberia feels, further, that the GAO report does not adequately reflect an understanding of the complex nature of developing alternative systems to deal with the problem of the middlemen or sub-agents who dominate the purchasing of farmer commodities. Their existence and the utilization of them by small farmers are based on strong historical, cultural and social reasons which will not disappear rapidly even if a successful cooperative system could be produced in a short period of time. The Mission feels that it has made some progress in dealing with the issue and suggests the following as steps to further impact the problem:

1. Establishment of small community-based cooperatives as the model of the future, an approach which will build on existing indigenous organizations and set the cooperatives within a familiar social structure.

2. The hiring of more competent, cooperative staff, improving pay scales and better training.

3. No patronage dividends (commissions) be paid for several years in order to strengthen the economic position of the cooperatives.

4. Establish cooperatives as buying points so that small farmers can be saved large transportaion costs.

5. Cooperatives must not loan to middlemen to purchase produce.

B. Paraguay

USAID/Paraguay and the GAO have fundamentally different perceptions of the status and impact of the CREDICOOP project in Paraguay. While acknowledging that the issues raised by GAO are relevant insofar as they address problems which have emerged over the several years of the project's operations, A.I.D. is satisfied

that appropriate action has been initiated by CREDICOOP to solve the problems reported in the draft report. These are as follows:

1. Delinquent Loans

The CREDICOOP credit unions are effectively dealing with delinquency problems through stringent credit controls established for this purpose. Realistic measures have been implemented to increase reserves and to provide for the aging of loans. The Stabilization Fund has been instrumental in helping the nine near-bankrupt cooperatives solve their delinquency problems. Most CREDICOOP cooperatives are moving toward or already have achieved self-sufficiency.

2. New Membership Strategy

Membership growth has been purposely curtailed to bring it within CREDICOOP's management capability. As noted, the haphazard growth of the past produced a serious problem of loan portfolio management. The new membership strategy is resulting in the formation of strong cooperative farmer groups necessary for effective membership expansion and viable services to small farmers. These steps will provide the basis for a sounder, if albeit, slower growth.

3. Continuing Assistance to Farmers After the End of A.I.D. Assistance

CREDICOOP does not agree with the GAO analysis of the potential incompatibility of urban and rural members. Its long-range plans call for the integration of small farmer services of a viable nature, including processing facilities. A cotton gin will shortly be added to the services offered to small farmers.

4. Viability of CREDICOOP

By the end of 1979, CREDICOOP had achieved 87% self-sufficiency. Total operational self-sufficiency is anticipated by the end of 1981. As CREDICOOP reaches its break-even point, the necessity of A.I.D.'s or other external sources of continuing assistance will continue to diminish. Further, the mobilization of member savings continues to put CREDICOOP in a stronger, more independent financial position and makes possible improved credit services to the rural areas. As these resources grow, the need for external capital decreases.

C. Philippines

USAID/Philippines finds no particular problem with the analysis of the regional marketing cooperative project in the Philippines. It points out, however, that the purpose of this project was not base level cooperative development, and insufficient time exists in which to make the necessary analysis, carry on discussions with the Government of the Philippines and do appropriate project reviews to define the specific steps which can or will be taken to affect changes in project design and funding in order to insure that base level cooperative development accompanies the development of the regional marketing structures. USAID/Philippines will address these fully in its planning and review prior to second year funding.

C. Philippines (Cont'd)

It is important for the GAO to recognize that A.I.D. has not been insensitive to the issue of base level cooperatives raised in the GAO draft report. In fact, USAID/Philippines has separately funded a project with the Cooperative Foundation of the Philippines, a private, non-governmental organization to assist in the expansion and strengthening of the Samahan Nayon, the village level cooperatives. In addition, the Peace Corps in the Philippines has under consideration the assignment of volunteers to work with the Cooperative Foundation in this effort. The Peace Corps project, in fact, was developed by the A.I.D. technician who developed the cooperative marketing project. He saw it as an integral part of the regional marketing effort. The GAO draft report is unclear as to whether these activities were examined as part of the overall assessment of the potential effectiveness of the regional cooperative marketing project.

V. Corrections

A.I.D. would suggest the following editorial changes for clarification:

A. Page 2, second paragraph, change the first and second sentences to read, "With the enactment of the Foreign Assistance Act in 1961 A.I.D. began to look to private and voluntary organizations and cooperatives in the United States to carry out the cooperative development process overseas."

B. Page 3, first paragraph, first sentence, change to read, "As of March 30, 1980, A.I.D. had developed information about the overall quantity of its support for cooperative development for the period FY 1978 - FY 1981. What was found lacking, however, was any systematic examination of the effectiveness of ongoing and past cooperative development efforts...."

C. Page 3, second paragraph, change the first line to read, "A March 1979 study of the Agency's cooperative activities done for A.I.D.'s Development Support Bureau...."

Same paragraph, last sentence, change to read, "As of April 15, 1980, A.I.D. had not yet indicated what it proposed to do with these recommendations."

Clearances: DS/PO, FCampbell (Phone, 5/19/80)
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A/AID, JSommer (Phone, 5/20/80)
NE/TECH, KMacManus (draft) 5/21/80
AA/NE, EVinson (draft) 5/21/80

GAO Note: Page references have been changed to correspond with the final report.

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